FitchRatings

RATING ACTION COMMENTARY

Fitch Rates MTA, NY's Transportation Rev Bonds 'A-'; Outlook Negative

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Fitch Ratings - New York - 23 Oct 2020: Fitch Ratings has assigned an 'A-' rating to approximately $257,500,000 of transportation revenue refunding green bonds, series 2020E (climate bond certified) to be issued by the Metropolitan Transportation Authority, NY (MTA). The bonds are expected to price on October 29 via negotiation. Proceeds will refund certain outstanding transportation revenue bonds (TRBs) for interest savings pending market conditions. Concurrent with this rating action, Fitch has downgraded the rating on the MTA's outstanding TRBs to 'A-' from 'A+' and outstanding TRB anticipation notes to 'F2' from 'F1'. The Rating Outlook is Negative.

SECURITY

The TRBs are backed by a gross lien on the MTA's operating revenues, which include, among other sources, fares received from the subway and bus systems operated by the MTA New York City Transit and its subsidiary; the Manhattan and Bronx Surface Transit Operating Authority; the commuter railroads operated by MTA Long Island Rail Road and MTA Metro-North Railroad; and buses operated by MTA Bus. TRBs are also backed by a gross lien on operating subsidies from the state of New York, New York City, after the payment of debt service on the MTA's dedicated tax fund bonds, and surplus from the operation of the MTA Bridges and Tunnels (TBTA) after the repayment of TBTA bond debt service. TRB anticipation notes are payable from the proceeds of other notes or TRB obligations to be issued by the MTA.

KEY RATING DRIVERS

Analytical Conclusion: The downgrade of the rating on the TRBs to 'A-' from 'A+' and to 'F2' from 'F1' on the TRB anticipation notes (which is mapped to the rating on the TRBs), reflects significant deficiencies in the MTA's credit profile, which Fitch expects to extend beyond the duration of a routine cyclical downturn. Key credit strengths have been neutralized by the breadth and acuity of coronavirus-related pressures on the MTA's operating and financial profile. The 'A-' rating reflects Fitch's view that the MTA continues to have the highest strategic and economic importance; that it will continue to benefit from sponsoring government support as it navigates the current crisis; and that its monopolistic position with respect to mass transit provision and strength of an experienced management team position it to stabilize its credit profile at the 'A-' level in the post-pandemic period.

The Negative Outlook considers myriad downside risks to the MTA's credit profile including a weak ridership and revenue outlook that drives MTA-forecasted budget gaps of $3.2 billion in 2020, $5.8 billion in 2021, and $3.5 billion in 2022 (relative to an approximate annual operating budget in excess of $17 billion). Gap closing actions identified by the MTA amount to roughly $1.2 billion for 2020 and 2021, largely achieved through the use of OPEB reserves, elimination of pay-go capital, the use of lockbox capital revenue for operations, and expenditure cuts totaling $240 million in 2020 and $540 million in 2021. Service cuts of up to 40% to 50% on mass transit and commuter rail would result in the permanent reduction of more than 8,000 positions and additional annual savings of more than $1 billion. In total, these and other deficit reduction measures, including potential fare and toll increases above the standard 4% biennial increases, would still leave a sizable shortfall in the MTA budget over the next several years, posing a risk to the MTA's already weakened financial resilience and liquidity.

These deficits will likely necessitate, in Fitch's view, a dependence on deficit borrowing in the absence of additional $12 billion in federal stimulus the MTA is requesting. The MTA received $4 billion out of the $25 billion allocated to mass transit agencies under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, but Fitch views the prospect for additional federal fiscal stimulus as speculative based on the uncertainty of the political landscape. Deficit borrowing options include the Federal Reserve's Municipal Liquidity Facility (MLF) -- Fitch estimates the MTA has $2.9 billion in additional borrowing capacity following its sale of $450 million of bond anticipation notes to the MLF in August. NYS also authorized the MTA, through 2022, to borrow up to $10 billion to fund operating costs.

Fitch believes that a deficit borrowing scenario for the MTA increases risk to future capital market volatility and access, and its sensitivity to the timing and strength of an eventual revenue recovery that is highly dependent on public health and economic conditions and mass transit ridership behaviors. The MTA has also identified potential savings of $1.8 billion in total over 2020 and 2021 from pension payment deferrals, which Fitch would similarly consider a form of deficit financing that increases the MTA's longer-term cost burden. Given the many risks associated with deficit financing, maintaining the 'A-' rating will require effective policy measures to more closely align operating obligations with revenues that are expected to be materially below pre-pandemic levels for several years.

Any deficit borrowing would also reduce the amount of resources to fund the $51.5 billion 2020-2024 capital plan. Fitch believes this could adversely affect system performance and safety gains achieved following the declaration of a state of emergency for the MTA by Governor Cuomo in June 2017, further compounding risk to ridership and fare revenues. Central business district (CBD) tolling was scheduled to be online in early 2021 and expected to fund $15 billion of the multi-year capital plan; however, the MTA has encountered delays in obtaining federal environmental reviews for the project. Furthermore, the CBD tolling program, if implemented, may not generate the revenue targets originally forecast given risk to continued lower traffic levels through the tolling area following the virus outbreak. The MTA has already put on hold the execution of contracts related to the 2020-2024 capital program in order to preserve cash flow.

Fitch's public transit ratings assume a higher level of government support to maintain system solvency due to the strategic importance of transit to local economies and other public policy goals, including the mobility of public health and safety workers in the current health crisis. However, the broad impact of the coronavirus on governmental revenues weakens the outlook for meaningful external financial support in the near term -- the Issuer Default Ratings on New York State (AA+) and New York City (AA) are both on Negative Outlook. The sharp decline in MTA cash flow generation triggers a considerably higher stress with regard to the affordability of long-term liabilities. The MTA is forecasting a 43% decline in TRB gross revenue in 2020 to $8.1 billion, which would increase the ratio of MTA net debt plus Fitch-adjusted net pension liabilities (NPL) to nearly 7x TRB gross revenue from 3.8x in 2019.

Liquidity remains adequate for now. As of October 19, 2020, the MTA reported $5.24 billion in liquidity to cover operating costs with a Fitch-estimated burn-rate of approximately $300 million per week. Liquidity resources include $2.05 billion of cash, $1.85 billion of undrawn or unspent commercial bank lines of credit (the MTA is authorized to solicit up to an additional $1 billion in bank facilities, pending market conditions), $1.17 billion of internal available flexible funds, and $174 million in OPEB reserves. The reported cash position is net of amounts set aside to fund the upcoming November TRB debt service payments.

System utilization remains very low compared to pre-virus levels, particularly on mass transit which accounted for about 40% of pre-virus total revenue. Subway and bus ridership are particularly affected by concerns over the ability to socially distance, which could become more acute if the MTA enacts broad service cuts. Current ridership levels also reflect an uptick in remote work and learning and significant declines in employment within the New York metropolitan area which has experienced a peak to trough employment decline of 20% with less than 50% recovery. Mass transit ridership has leveled off at around 30% of 2019 levels since August. Fitch would not expect to see materially higher levels of ridership on mass transit until an effective vaccine or treatment becomes widely available.

MTA Bridges and Tunnels (TBTA) crossings have fared better, down an estimated 15% compared to 2019 levels. The MTA budget deficits noted earlier reflect the midpoint of several utilization and revenue scenarios prepared by McKinsey and Co. For transit, ridership through the remainder of 2020 is assumed at 40% and 21% in the moderate and severe scenarios, respectively. The moderate and severe scenarios for TBTA toll revenue assume a 57% and 44% level of activity, respectively, suggesting some modest revenue upside (the MTA receives TBTA surplus revenues - $37 million estimated in 2020 down from $788 million in 2019 - to fund certain transit and commuter operating and capital costs).

KEY RATING DRIVERS

Revenue Defensibility: Stronger

The strategic importance of the MTA transit system, bridges and tunnels to the economy of the New York region is the cornerstone of the 'stronger' revenue defensibility assessment. It supports an expectation for ongoing financial support from sponsoring governments, including periodic authorization of new recurring revenue sources to fund the MTA's operating and capital budget. The strength of this rating factor is tempered by the widespread adverse impact of the coronavirus on the New York State and New York City budgets and its many competing demands.

The MTA's monopolistic position with respect to mass transit provision is viewed as a credit positive, and MTA ridership had exhibited signs of stabilization prior to the pandemic following several years of moderate decline. However, the circumstances of the current stress are unique relative to historical experience, resulting in a greater level of uncertainty with regard to future ridership. The MTA's fare and toll rate-setting authority provides a mechanism to recover increased costs of service over time. The MTA is highly dependent on various dedicated tax revenues assessed on a broad range of activities unrelated to its functions which mitigates price and demand risk. However, dedicated tax volatility tends to be high and beyond the MTA's control, and affected by the same issues as farebox revenue, if to a lesser extent, which could exacerbate challenges from weakness in the underlying economic environment.

Operating Risk: Midrange

The MTA's operating profile is driven by its cost of labor, including fringe benefits for existing and retired employees, and the financing of its extensive capital program. The MTA has consistently produced near-term solutions to its budgetary challenges in the past via a combination of fare increases, cost saving programs and non-recurring measures, but it has failed to achieve meaningful labor reforms that could have provided the MTA with more flexibility to address its current fiscal stress. Prior to the coronavirus outbreak, the MTA had initiated implementation of an organizational transformation plan that mostly affected non-union workers, proposing the elimination of up to 2,700 positions yielding up to $530 million in annual savings. Debt service and retiree benefit costs have risen substantially over the past decade and are increasingly burdensome given current revenue losses. The MTA's massive capital plan faces increased funding risk given declines in existing resources and a delay in the implementation of the central business tolling program, which was expected to fund $15 billion in plan projects through 2024.

Financial Profile: Stronger

The MTA's financial profile assessment is increasingly pressured given the weakening of revenue resources forecast over the next several years. Fitch expects the MTA will adjust the implementation of non-essential capital investment in response to its current liquidity crisis, which may have adverse consequences on system performance and ridership over the intermediate term. Leverage pressures may materialize from financial market instability resulting in increases in the MTA's net pension liabilities (and potential pension contribution deferrals to help close the budget gaps), or the incurrence of additional long-term debt to replace programmed pay-as-you-go capital and to fund operations given its decline in revenue and near-term liquidity risk.

Fitch's leverage analysis focuses on pledged gross TRB revenues rather than cash flow available for debt service. This alternative view of financial leverage is based on the protection afforded to bondholders from the gross lien on pledged TRB revenues, statutory provisions that restrict the MTA from filing for bankruptcy protection, and a covenant of New York State not to change the law to permit the MTA to file such a petition as long as any TRBs are outstanding.

The MTA has an ESG Relevance Score of '4' for Labor Relations and Practices due to the challenging labor environment in which it operates and its high cost of labor including fringe benefits for existing and retired employees, which has a negative impact on the credit profile and is relevant to the rating in conjunction with other factors.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to a negative rating action/downgrade:

--The insufficiency of state and federal policy tools and emergency assistance to stem further financial deterioration, and significant levels of deficit borrowing that weaken our view of the MTA's financial recovery could lead to a multi-notch downgrade;

--The inability of the MTA to maintain sufficient liquid resources to meet its near and intermediate term operating needs, including that caused by hampered access to capital markets for necessary cash flow borrowing and/or the inability to lower operating costs given substantial reductions in operating and dedicated tax revenues;

--A sustained reduction in ridership and revenues in the post-crisis recovery period associated with underlying economic conditions, a re-emergence of infections and re-imposition of lockdown measures, declining system performance or otherwise, that adversely impacts Fitch's view of the MTA's leverage relative to available resources.

Factors that could, individually or collectively, lead to a positive rating action/upgrade:

--The Rating Outlook could be revised to Stable if Fitch sees sustained recovery in ridership and revenues due to an easing of health concerns and gradual resumption of economic activity, and/or federal or state action.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579].

CREDIT PROFILE

The MTA was created by special New York State legislation in 1965 as a public benefit corporation, separate and apart from the state without any power of taxation. The MTA is responsible for developing and implementing a single, integrated mass transportation policy for its designated service area, and its governing body is appointed by the New York State governor with the advice and consent of the state senate.

The MTA carries out its operating responsibilities through its subsidiary and affiliate entities: New York City Transit Authority and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority; Staten Island Rapid Transit Operating Authority; Long Island Rail Road Company; Metro-North Commuter Railroad Company; MTA Bus Company; and MTA Construction and Development. The MTA Bridges and Tunnels, another affiliate of MTA, is a public benefit corporation empowered to construct and operate toll bridges and tunnels and other public facilities in New York City. The MTA Bridges and Tunnels' surplus amounts are used to fund certain transit and commuter operations and capital projects of the MTA.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

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Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Metropolitan Transportation Authority (NY) [General Government]				
• Metropolitan Transportation Authority (NY) /Transportation Revenues/1 LT	LT	A- Rating Outlook Negative	Downgrade	A+ Rating Outlook Negative
• Metropolitan Transportation Authority (NY) /Transportation Revenues/1 ST	ST	F2	Downgrade	F1

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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